STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company	:	
	:	**Docket No. 12-0511**
Proposed general increase in rates for gas distribution service	:	
	:	**(cons.)**
The Peoples Gas Light and Coke Company	:	
	:	**Docket No. 12-0512**
Proposed general increase in rates for gas distribution service	:	

BRIEF ON EXCEPTIONS OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

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STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company **Proposed general increase in rates for gas distribution service** **The Peoples Gas Light and Coke Company** **Proposed general increase in rates for gas distribution service**	: : : : : : : : : :	**Docket No. 12-0511** **(cons.)** **Docket No. 12-0512**

BRIEF ON EXCEPTIONS OF THE
STAFF OF THE ILLINOIS COMMERCE COMMISSION

Staff of the Illinois Commerce Commission ("Staff"), by and through its counsel, pursuant to Section 200.830 of the Rules of Practice (83 Ill. Adm. Code 200.830) of the Illinois Commerce Commission's ("Commission"), respectfully submits this Brief on Exceptions to the Proposed Order issued by the Administrative Law Judges ("ALJs") on April 26, 2013 ("Proposed Order", "PO" or "ALJPO").[1]

I. INTRODUCTION

A. Overview/Summary

North Shore Gas Company ("North Shore" or the "Company") and The Peoples Gas Light And Coke Company ("Peoples Gas" or the "Company") (collectively referred

[1] The outline used by Staff in this Brief on Exceptions follows the agreed outline which Staff also used for its Initial Brief and Reply Brief. That outline differs in some respects from the PO's outline. The outline for the Staff brief on exceptions also includes "Technical Correction" and "Conclusion" sections following Section X.

to as the “Utilities” or “Companies”) filed new tariff sheets on July 31, 2012 in which the Companies proposed general increases in their natural gas rates and other tariff changes. On September 6, 2012 the Companies’ tariff sheets were suspended by the Commission and on December 19, 2012 the Commission entered a Re-suspension Order extending the suspension to and including June 27, 2013. The matters were consolidated at the initial status heading held on September 24, 2012. (*Tr*., September 24, 2012, p. 7)

Evidentiary hearings were held on February 4, 5, 6, 7, 8 and 13, 2013. Initial Briefs were filed on March 8, 2013 by the Companies, Staff, The People of the State of Illinois *ex rel.* Lisa Madigan, Attorney General of the State of Illinois (the “AG”), the Citizens Utility Board (“CUB”) and the City of Chicago (“City”) (jointly “CUB-City”) and Interstate Gas Supply of Illinois (“IGS”). Reply briefs were filed by the same parties and Staff on March 26, 2013. As indicated above, the PO was issued on April 26, 2013.

In general, the PO reviews the issues presented in this proceeding in a clear and concise manner, is well written, and reflects the positions taken by Staff, the Companies, and the numerous intervening parties. Although Staff supports many of the PO’s conclusions, there are items to which Staff takes exception as set forth below.

II. TEST YEAR (Uncontested)

III. REVENUE REQUIREMENT

A. North Shore

B. Peoples Gas

IV. RATE BASE

A. Overview/Summary/Totals

1. North Shore

2. Peoples Gas

B. Potentially Uncontested Issues (All Subjects Relate to NS and PGL Unless Otherwise Noted)

1. Cushion Gas Calculation

2. Plant

a. Forecasted Test Year Capital Additions – Utility Plant in Service (PGL)

b. Advanced Metering Infrastructure Project

c. LNG Control System Upgrade and Related Project (PGL)

d. Calumet System Upgrade (PGL)

e. CNG Fueling Station (PGL)

Staff recommends that the PO be modified in its summary of Peoples Gas' withdrawal of its CNG station from rate base. The PO fails to provide context or a citation to the context of the resolution of the issue. Staff believes that further explanation of the context is necessary to provide clarity in the PO. Therefore, Staff recommends the following change to the PO.

<u>Proposed Modification</u>
(PO, p. 9)

e. CNG Fueling Station

Peoples Gas proposed to include the Division Street CNG Fueling Station project in its rate base. Schedule B-5, page 2 of 2, Line 5. Staff objected to this inclusion. Staff Exs. 6.0, at 31-36, 16.0, at 13-19, and 21.0. Subsequently, Peoples Gas has withdrawn the CNG Fueling Station project from rate base. NS-PGL Ex. 44.0 at 2. This is no longer~~t~~ a contested issue. Therefore, the Commission approves the withdrawal of the CNG Fueling Station project.

* * *

f. Incentive Compensation – capitalized amounts disallowed in prior cases

g. Original Cost Determination as to Plant Balances as of December 31, 2011

3. Budget Plan Balances

4. Accumulated Deferred Income Taxes - 50/50 Sharing Related to Tax Accounting Method Change

C. Potentially Contested Issues (All Subjects Relate to NS and PGL Unless Otherwise Noted)

1. Year End Rate Base or Average Rate Base

Staff agrees with the ALJPO's analysis and conclusion on page 38 of the PO addressing year end rate base vs. average rate base; however, as noted below, certain technical corrections need to be made to Appendix A and B to more accurately reflect average rate base as intended for the Final Order.

Technical Exception No. 1

On page 15 of ALJPO Appendix A, the balances for North Shore's ADIT (Column E on lines 1, 2 and 3) are shown as positive amounts when they are actually negative. As a result, the adjustment to ADIT (Column E, line 4) is shown as an increase to ADIT, a negative, both on page 15 and on page 6, column (d), line 17 of Appendix A, when the adjustment should be a reduction in ADIT, i.e. a positive number. This exception does not apply to Peoples Gas.

Technical Exception No. 2

The disallowance of the Non-AMRP Gas additions for Peoples Gas in the revenue requirement schedules needs to be corrected to reflect that 100% (instead of 150%) of the Non-AMRP additions are being removed from rate base. The adjustment amounts on page 6, Column (d), of ALJPO Appendix B, represent year-end balances for the Non-AMRP Gas plant additions to the test year as depicted on Staff Cross Exhibit 11. Using year-end balances removes 100% of the Non-AMRP Gas additions from rate base. In addition, the Average Rate Base Adjustments on page 16 of Appendix B remove 50% of the Non-AMRP Gas additions from rate base. This error can be corrected by using average amounts for the adjustments for Non-AMRP Gas on page 6. The correct average amounts for the Non-AMRP Gas adjustments are the amounts from Staff Cross Exhibit 11 divided by two which calculate to: Gross Utility Plant ($5,857); Accumulated Depreciation $122; and ADIT ($326).

Accordingly, the adjustment to depreciation expense related to the adjustments for Non-AMRP Gas should also be corrected to reflect an average amount. The adjustment for Non-AMRP Gas depreciation expense on page 2 of ALJPO Appendix B should be divided by two which calculates to ($121).

This exception has derivative effects on the Invested Capital Tax (“ICT”) and Cash Working Capital (“CWC”) adjustments.

This exception does not apply to North Shore Gas.

2. Plant

a. Forecasted Test Year Capital Additions – Utility Plant in Service (NS)

Staff agrees with the ALJPO's analysis and conclusions on page 40 under the Forecasted Test Year Capital Additions – Utility Plant In Service (NS) section that North Shore's forecasted test year plant additions should be adjusted based on past years budget to actual variances. Staff does not take exception to basing the adjustment on a five-year average of budget to actual variances.

b. Accelerated Main Replacement Program Projects (PGL)

i. Section 8-102 Investigation of AMRP

Without clearly stating its rejection of Staff's recommendation for an investigation of Peoples' Accelerated Main Replacement Program ("AMRP") program, the PO, nevertheless makes that rejection evident by stating that, "[i]f Peoples' is unable to improve its planning and progress tracking, the Commission will have no choice but to revisit Staff's recommendation for an investigation of this Program either when the Utilities file their next rate case or perhaps, sooner." (PO, p. 61) This PO if adopted by the Commission, which it should not be, would mark the second time that Staff has recommended that the Commission employ the aid of a consultant to address Peoples' inability to run a gas main replacement program (Staff Ex. 20.0, p. 16) and the second time the Commission would have acknowledged the need for additional Commission oversight of Peoples' AMRP program, but rejected Staff's recommendation. The first rejection took place in Docket No. 09-0167. (Final Order, Docket Nos. 09-0166/09-0167 (Cons.), January 21, 2010, p. 196) Staff recommends that the Commission reject the PO's conclusion on this issue and accept Staff's recommendation for an investigation;

otherwise, nothing will stand in the way of Peoples continuing to poorly plan, design, and execute its AMRP program until the next time Staff has an opportunity to renew its recommendation.

The date that the Commission set for completion of Peoples' AMRP is 2030 as set forth in its Final Order in Docket No. 09-0166/09-0167 (Cons.). The Commission stated in its order the following: "Due to the many benefits that the accelerated plan provides to ratepayers, the Commission is of the opinion that time is of the essence and hereby requires completion of the acceleration plan project by 2030." (Order, Docket No. 09-0166/09-0167 (Cons.), Jan. 21, 2010, p. 196) In 2010, that date was 20 years away, but by the end of this year, 2030 will be only 16 years away, and Peoples is no closer to managing its AMRP program appropriately than it was when Staff witness Harry Stoller made his recommendation in 2009 in Docket No. 09-0166/09-0167 (Cons.). Every year Peoples falls further behind schedule (Staff Ex. 20.0, p. 8) and deeper and deeper into an out of control cost escalation spiral (Id, p. 2). Construction efficiency and cost containment are still only Commission goals that Peoples is unable to accomplish. While the Commission has set 2030 as the date for the project to be completed, Peoples has failed to provide credible evidence that it will complete its AMRP program by any date certain. Despite all of this, the PO has the Commission again refusing to intervene on customers' behalf.

Time is running out; the time for Commission action is now. If the Commission were to adopt Staff's recommendation for an investigation in its final order it would be at least the beginning of 2014, if not later before the Commission could have a consultant working at Peoples in the investigation, and the investigation would last one year to the beginning of 2015. If the Commission's consideration of the consultant's findings takes another year of hearings and formal procedures, then the earliest the Commission can issue an order to Peoples would be the beginning of 2016. By the time Peoples reacts to the Commission's order and makes the necessary changes to the AMRP it might be the beginning of 2017 before meaningful changes become evident in the AMRP. By then, only 13 years will remain until the Commission's 2030 deadline for the AMRP program. In other words, it may already be almost too late for the Commission to achieve its goal of a completed AMRP program by 2030 regardless of what it may cost.

The PO's only justification for rejecting Staff's recommended investigation is flawed because it relies on a CUB-City concern that does not exist. The PO states that, "[t]he Commission, however, shares the concerns expressed by CUB-City that an investigation could impede the progress of the Program even more." (PO, p. 61) However, CUB-city has no such concern, and the PO makes that clear where it states, "[h]owever, CUB-City argues PGL's evidence of an alleged adverse effect of a Commission investigation has not been persuasive." (PO, p. 60) What CUB-City argued, but the PO acknowledges but fails to take into account in its decision on this issue is that "[i]f a higher level of Commission oversight were likely to impede AMRP completion, CUB-City could not support the Staff recommendation. However, CUB-City argues PGL's evidence of an alleged adverse effect of a Commission investigation has not been persuasive." (Id.)

Consistent with the above, Staff recommends the following changes to the PO.

<u>Proposed Modification</u>
(PO, p. 61)

Commission Analysis and Conclusion

Consistent with the final order in Docket No. 09-0167, this Commission remains concerned about and committed to ensuring the completion of the Accelerated Main Replacement Program. The record indicates that this 20 year program is making some progress but not as much as Peoples' projected. The record also suggests there are reasons to question Peoples' ability to complete the project in a timely and cost effective manner. The limited progress made on the Program has come at a cost much higher than Peoples' projected. ~~The Commission, however, shares the concerns expressed by CUB-City that an investigation could impede the progress of this Program even more.~~ Peoples has an obligation to provide a safe and reliable natural gas service to its customers. Part of its obligation is to keep this vital Program moving forward without delays or excuses. Peoples needs to work with the other entities to ensure that a detailed plan, including discussions, meetings and all aspects of this project, are laid out in detail. The Company also needs to do a better job of tracking the progress of this major project. This Commission expects that the information, both its Program Plan and its tracking of progress, will be presented in a clear and concise manner. The Commission believes this is the least it can expect at a time when the Company is asking for continued support for this Program. ~~If Peoples' is unable to improve its planning and progress tracking, the Commission will have no choice but to revisit Staff's recommendation for an investigation of this Program either when the Utilities file their next rate case or perhaps, sooner.~~ The Commission also believes that the importance of the AMRP requires the Commission to take action now to protect the AMRP from further delays and cost escalations by adopting Staff's recommendation for an investigation. The Commission therefore directs Staff to hire a consultant as authorized by Section 8-102 of the Act, conduct an investigation in accordance with generally accepted auditing standards and as described in Staff witness Philliph Roy Buxton's rebuttal testimony (Staff Ex. 20.0), and to report the results of the investigation to the Commission as soon as they are available. The Commission directs Peoples to cooperate fully with Staff and the Commission's consultant to facilitate the best possible results of the Commission's investigation and to bear initially the cost of the investigation and the Commission consultant's fees until Peoples is able to recover those costs as an expense through normal ratemaking procedures.

* * *

ii. AMRP Adjustment

The PO errs in the Commission Analysis and Conclusion section regarding the conclusion that the record does not support Staff's position. (PO, p. 61) Staff through the testimony of Staff witness Buxton and Seagle demonstrated that Peoples Gas has not been managing its AMRP in a prudent manner.

Mr. Seagle provided support for Staff's position by identifying two concerns regarding the manner Peoples Gas managed its AMRP project. First, Mr. Seagle testified that Peoples Gas lacked appropriate methodology to plan and track the AMRP project. Second, Mr. Seagle noted that Peoples Gas' projection of work completed for 2012 and 2013 missed its estimate by a factor of almost two. (Staff Ex. 6.0, p. 39) Based on these concerns, Mr. Seagle proposed disallowing a portion of the costs that Peoples Gas claimed it would incur. Mr. Seagle based his calculation on a comparison of the amount of actual work completed versus the amount of work Peoples Gas projected it would complete in 2012 and 2013.

Construction Methodology

Mr. Seagle testified that Peoples Gas' methodology for how it developed its AMRP schedule lacked any reasonable policies and/or procedures to provide guidance for its Engineering and Operations personnel to develop a workable schedule. (Staff Ex. 16.0, p. 23) Staff noted that this type of information is necessary for the Company to establish the project milestones that it uses in the bidding process. (*Id.*) Of particular concern is that Peoples Gas appears to leave the actual planning of construction work to the discretion of the contractor performing the work at street level. Mr. Seagle stated that this type of planning is inadequate because no policies or procedures were in place before the meetings were held between engineering personnel, operations personnel, construction managers, and contractors. (*Id*.) Further, Mr. Seagle found that the lack of adequate planning by Peoples Gas' management was a factor in Peoples Gas not completing its planned or forecasted AMRP construction and restoration work within the time allotted. Staff witness Buxton similarly testified that Peoples' AMRP program has not performed well. (Staff Ex. 20.0, p. 8)

Staff's review reveals that Peoples Gas' methodology for how it developed its AMRP schedule is inadequate given the poor progress that Peoples Gas has made on this project compared with its projections. (Staff Ex. 6.0, p. 39) Indeed, Peoples Gas has not yet completed all of the 2011 AMRP distribution projects. Unfortunately, Peoples Gas had only completed approximately 95% of its 2011 AMRP distribution projects. (NS-PGL Ex. 34.0, p. 10) Further, Peoples Gas provided no documentation demonstrating it used sound procedures or policies in association with its ARMP project. Instead, Peoples Gas provided vague generalizations of how it intends to provide guidance to contractors, so that the contractors can develop an actual plan directly before the contractor begins construction at that particular street or block. (Staff Ex. 16.0, pp. 24-25)

Aside from the inadequate "oversight" of its contractors, the record shows that Peoples Gas also lacks a means to track the project sufficiently. Peoples Gas provided an AMRP Weekly Report, Summary Status (NS-PGL Ex. 34.3) that shows the percentage of completion of the 2011 and 2012 AMRP distribution projects, as well as the Accelerated Six Distribution Projects and the High Pressure Main Installation Project. Peoples Gas claims these documents demonstrate that it is making better progress towards AMRP construction and restoration goals compared to the current rate of completion of AMRP construction goals. However, this document does not provide any detail regarding plans, discussions, or meetings held to address issues with regard to meeting AMRP construction and restoration goals. Without this level of detail, the Commission and Staff are unable to determine if Peoples Gas is making better progress towards AMRP construction and restoration goals compared to the current rate of completion of AMRP construction and restoration goals. (Staff Ex. 16.0, p. 25)

Work Completed

Mr. Seagle testified that Peoples Gas failed to complete the level of planned AMRP construction and restoration work that Peoples Gas claimed it would conduct in 2012 and 2013. (Staff Ex. 6.0, p. 39) Mr. Seagle's comparison of planned AMRP work to actual AMRP work completed showed that Peoples Gas' contractors were well behind the planned or forecasted schedule, which Peoples Gas utilized in its cost projections for the project. (*Id*.) Mr. Seagle found that Peoples Gas only finished about *half* of the AMRP work it planned to complete, but incurred approximately the same capital costs. In other words, the project costs per mile were almost *double* Peoples Gas' projections. (*Id*., pp. 39-40) Peoples Gas projected it would install 165 miles of gas main in both 2012 and 2013, but Peoples only met 53% of its goal in 2012 and has now revised its forecasted miles in 2013 to approximately 50% of its original projections. (Staff Ex. 6.1, Sch. 6.1 P) Further, as noted earlier, Peoples Gas still has 5% of its 2011 work yet to complete. (NS-PGL Ex. 34.0, p. 10)

Aside from Peoples Gas' failure to complete the level of planned AMRP construction and restoration work that Peoples Gas claimed it would conduct in 2012 and 2013, Peoples Gas' lack of progress on this project is a result of its reliance on inaccurate assumptions. (Staff Ex. 6.0, p. 41) Peoples Gas stated that it had yet to complete a full year of the program where the Company could collect the full cost and resource data, and then be able to accurately forecast for future years. (*Id*.) Staff does not dispute that Peoples lacked a full year of activity; however, Peoples Gas should have unequaled expertise in every aspect of planning, designing, constructing, maintaining, and replacing underground gas mains in Chicago. With 150 years experience digging up Chicago streets, the Company should have a solid understanding of just how much funding it will expend on each type of construction project and should have taken preemptive action to mitigate budget and scheduling complications. Staff's review of the record indicates that no mitigation took place. (Staff Ex. 20.0, pp. 4-6)

As discussed above, Peoples Gas' inability to plan and manage the project forms the basis for Staff's recommendation. For those reasons, Staff recommends the following changes to the PO:

Proposed Modification
(PO, p. 61)

> Next the Commission must address Staff's proposed adjustments to the costs associated with the 2012 and 2013 years of the AMRP. Staff's points out that the Company has missed its targets and the proposed adjustments are based on the percentage of work that was completed by Peoples. Considering the record, the Commission is unable to ignore Peoples Gas' lack of progress regarding the AMRP. The total amount of the recommended adjustments is $218,598,000. ~~However, there is nothing in Staff's testimony that the costs were not incurred by Peoples for this program.~~ ~~There also was no showing that the costs were imprudent, not reasonably incurred nor used and useful in furtherance of the AMRP.~~ The Commission understands Staff's concerns about the progress on this Program, and agrees that the adjustments proposed by Staff should be accepted. Therefore, the Commission finds in favor of Staff's recommendations and finds that the prudent course of action is to remove $95,794,000 in 2012 and $122,804,000 in the 2013 of People Gas' requested rate base addition associated with the AMRP. ~~however, the adjustments proposed by Staff are not supported by the record. Therefore, Staff's proposed adjustments are rejected.~~

* * *

c. Construction Work in Progress (PGL)

d. Non-Union Wages (see also Section V.C.2)

e. Capital Costs for Non-AMRP Gas Services

3. Cash Working Capital

a. Pass-Through Taxes

b. Pension/OPEB

c. All Other

4. Retirement Benefits, Net

5. Net Operating Losses

The Staff position as presented in the ALJPO should be revised to reflect the fact that Staff changed its position in its Reply Brief concerning the Net Operating Loss ("NOL") and in the end did not reflect the 2012 NOL in the 2013 test year revenue requirement that was attached to the Staff Reply Brief. Staff changed its position in its Reply Brief because Staff after further consideration determined that it could not properly consider the 2012 NOL impacts on various Staff proposed adjustments due to the extensive derivative impacts that resulted. The information to perform the various calculations did not exist for the record and the Companies did not choose to provide the various calculations with their Initial Brief. While the Companies noted errors in Staff's Initial Brief concerning the impact of the 2012 NOL, the Companies did not provide any supporting schedules using data that was included in the evidentiary record to correctly perform the calculations. (NS-PGL Reply Brief, p. 120, footnotes 47 – 50)

Thus, the evidentiary record contains only the Companies' schedules that were attached to their surrebuttal testimony, that show the 2012 NOL at present rates. (Staff Reply Brief, p. 35) As a result, the Appendices that are attached to the PO are also incorrect because they reflect certain adjustments that the Company noted were incorrectly reflected in the schedules attached to Staff's Initial Brief. (NS-PGL Reply Brief, p. 120, footnotes 47 – 50) Because the final revenue requirement that is ultimately approved by the Commission will presumably reflect some level of rate increase and the impact of certain adjustments proposed by one or more parties, the Commission will not have the information necessary to reflect the numerous and complex derivative impacts of the 2012 NOL on the approved rates resulting from the final revenue requirement approved by the Commission. Therefore, Staff also takes exception to the PO's Analysis and Conclusion section regarding the treatment of the 2012 NOL in the final test year revenue requirements (ALJPO, pp. 99 – 100) because Utilities should not be able to benefit from presenting new issues at the surrebuttal testimony stage, the timing of which deprives interested parties and the Commission of a full and complete record.

Staff would note that there was no dispute between the parties concerning the 2013 NOL which is due to the impact of the American Taxpayer Relief Act of 2012 enacted in 2013.

Accordingly, Staff proposes the following replacement language to the sections setting forth the Staff final position on this issue and the Commission's Analysis and Conclusion regarding this matter.

Proposed Modification
(PO, p. 92)

Staff

Staff changed its position in its Reply Brief and did not reflect the 2012 NOL in the 2013 test year revenue requirement that was attached to the Staff

Reply Brief. Staff changed its position in its Reply Brief because Staff could not properly consider the 2012 NOL impacts on various Staff proposed adjustments due to the extensive derivative impacts that resulted. The information to perform the various calculations did not exist for the record.

~~The Companies indicated in their responses to certain Staff Data Requests ("DR"s) that they would address the impact of tax legislation that was enacted on January 2, 2013, including possibility of a Net Operating Loss ("NOL") in surrebuttal testimony. Staff Ex. 14.0 at 23. The Companies filed surrebuttal testimony on January 25, 2013 that reflects the impact of a NOL on the 2013 test year operating statement (NS-PGL Ex. 42.0) and rate base (NS-PGL Ex. 43.0) but does not incorporate the effect of the revenue increase on such NOL. Accordingly, the revenue requirements attached to Staff's Initial Brief contain two sets of adjustments to reflect the impact of Staff's proposed increase:~~

~~1) Operating Statement adjustments to reflect that Staff's proposed revenue increase results in a lower NOL and reduces the current tax provision, while increasing the deferred tax expense; and,~~

~~2) Rate Base adjustments to reflect that Staff's proposed revenue increase results in a lower NOL and reduces the ADIT asset, but not below zero, as in the case of North Shore Gas. This impact was confirmed by Companies' witness Ms. Moy during Staff's cross examination. Tr. at 706.~~

~~Staff Cross Exhibit 4[2] was entered into the evidentiary record to more fully describe the relationship of the NOL to the current and deferred tax expenses in the final revenue requirement that is approved by the Commission in this proceeding. Staff Cross Exhibit No. 10[3] was also entered into the evidentiary record to more fully describe the relationship of the NOL to the ADIT asset.~~

~~Accordingly, Staff adjusted the revenue requirements attached to this Initial Brief to reflect a lower ADIT asset in the test year rate base.~~

~~Companies' witness Stabile also confirmed that if the 2012 NOL is not included in the beginning balance for the 2013 NOL, then this would be a violation of Federal Income Tax normalization rules which would result in the loss of accelerated depreciation, including bonus depreciation. Tr. at 777.~~

~~Therefore, the Commission should reflect derivative NOL adjustments in the final operating statement and rate base schedules for the Companies based on the amount of revenue increase that is ultimately approved in this proceeding. It is Staff's understanding that the methodology to reflect the~~

[2] ~~Staff DR BAP 26.02.~~

[3] ~~Response to Staff DR BAP 26.01.~~

~~impact of the revenue increase on the NOL and final revenue requirements is not contested between Staff and the Companies.~~

* * *

Proposed Modification
(PO, pp. 99-100)

Commission Analysis and Conclusion

The Commission finds that the Utilities appropriately set forth its assumptions when it filed their direct case. The Utilities clearly indicated that based on forecasts at the time, while Peoples Gas or North Shore may individually be generating losses, the consolidated group was able to absorb such losses. The Commission also finds that through discovery and at its next opportunity to file testimony, the Utilities again updated the status of the NOLs, indicating again that it was forecasting that the consolidated group would be able to absorb the individual NOLs of Peoples Gas and North Shore. It would have been improper at either the direct stage or rebuttal stage to include the NOL as CUB-City argues. However, the Commission acknowledges the need to base its decisions on a full and complete record. Given the timing of the development of the 2012 NOL, the Commission notes that Staff and other parties were effectively precluded from making a complete analysis of the derivative impacts on the 2013 test year revenue requirement and from providing a full and complete record that is necessary for the Commission to base its decisions. Therefore, the Commission finds that the 2012 ~~and 2013~~ NOL is ~~are~~ inappropriate and should ~~both~~ not be reflected in rate base.

The Commission further observes that two new facts occurred in January 2013: the Utilities closed their books making actual 2012 data available and (2) the American Taxpayer Relief Act of 2012 was enacted. Staff utilized some actual 2012 data when it updated its adjustment to North Shore's forecasted plant additions, further decreasing North Shore's rate base. All parties agree that the effects of the American Taxpayer Relief Act of 2012 ~~was~~ enacted in 2013, which extended bonus depreciation to 2013, be reflected in rate base. This also has the effect of reducing the Utilities' rate base. However, AG, and CUB-City argue against 2012 NOL, which is also new information only available in January 2013, which has a positive effect on rate base. In its reply brief, Staff agreed with the AG that the 2012 NOL should be removed from the revenue requirements. While Staff and the Companies agree on the effect, Staff does not agree that the 2012 NOL should be included. This methodology to reflect the impact of the revenue increase on the NOL and final revenue requirements is not contested between Staff and the Companies. However, the Commission acknowledges the need to base its decisions on a full and complete record.

Given the timing of the development of the 2012 NOL, the Commission notes that Staff and other parties were effectively precluded from making a complete analysis of the derivative impacts on the 2013 test year revenue requirement and from providing a full and complete record that is necessary for the Commission to base its decisions upon. The Commission must weigh all facts in evidence and it finds that it is improper to include ~~both~~ the 2012 ~~and 2013~~ NOL~~s~~ in rate base. Since as discussed above there is no dispute between the parties concerning the impact of the American Taxpayer Relief Act of 2012 on 2013, the 2013 NOL will be reflected in rate base.

Therefore, the derivative NOL adjustment~~s~~ for 2012 will not be reflected in the final operating statement and rate base schedules for the Companies based on the amount of revenue increase that is ultimately approved in this proceeding.

* * *

6. **Accumulated Deferred Income Taxes**

   a. **Appropriate Methodology to Reflect Change in State Income Tax Rate**

   b. **Repairs Deduction Related to AMRP projects**

   c. **Bonus Depreciation**

   d. **Derivative Adjustments from Contested Adjustments**

D. **Accumulated Depreciation (Uncontested Except for Derivative Adjustments from Contested Adjustments)**

V. **OPERATING EXPENSES**

A. **Overview/Summary/Totals**

1. **North Shore**

2. **Peoples Gas**

B. **Potentially Uncontested Issues (All Subjects Relate to NS and PGL Unless Otherwise Noted)**

1. **Administrative & General**

   a. **Interest Expense on Budget Payment Plan**

   b. **Interest Expense on Customer Deposits**

   c. **Lobbying expenses**

   d. **Social and Service Club Dues**

   e. **Executive Perquisites**

   f. **Consulting Expense – SIG Consulting**

   g. **Employee/Retiree Perquisites – Awassa Lodge**

   h. **Update to Pension and Benefits**

   i. **Updated IBS Return on Investment**

   j. **Costs to Achieve Amortization**

2. **Uncollectible Account Expense Included in Base Rates**

The ALJPO is correct that the uncollectible accounts expense to be used to determine incremental uncollectible adjustments in Rider UEA is not a contested issue. However, since Staff did not propose an actual adjustment to uncollectible accounts expense, Staff recommends a minor language change to this section. In addition, Staff would note that it has reviewed the ordering paragraph included in the ALJPO and can confirm that the paragraph properly identifies the uncollectible accounts expense that is included in the Companies' base rates for purposes of the Companies' future Rider UEA Uncollectible Expense Adjustments.

Proposed Modification
(PO, p. 120)

> 2. Uncollectible Account Expense Included in Base Rates
>
> In rebuttal testimony, the Utilities accepted Staff's proposal~~ed adjustment to the base rate~~ that the uncollectible accounts expense to be used to determine incremental uncollectible adjustments in Rider UEA will be the uncollectible accounts expense determined by the Commission in this proceeding. Staff Ex. 2.0 at 27; NS-PGL Ex. 26.0 at 4-6. ~~The Commission approves Staff's adjustment.~~

* * *

3. Depreciation Expense

a. WAM System

b. CNG Plant

4. Income Tax Expense – Changes in Interest Expense on Debt Financing

5. Revenues

a. Sales and Revenue Adjustment by Service Classification

6. Interest Synchronization (methodology on derivative adjustments)

C. Potentially Contested Issues (All Subjects Relate to NS and PGL Unless Otherwise Noted)

1. Incentive Compensation (Falls in Multiple Categories of O&M)

2. Wage Increase Corrections

3. Non-union Base Wages (Falls in Multiple Categories of O&M)

4. Vacancy Adjustment (Falls in Multiple Categories of O&M)

5. Distribution O&M

a. Plastic Pipefitting Remediation Project

b. Legacy Sewer Lateral Cross Bore Program

The PO errs in the Commission Analysis and Conclusion section regarding the assumption that the record "shows that the Utilities' have taken appropriate measures when installing their pipes underground to prevent cross bores." (PO, p. 146) As Staff argued in its initial and reply brief the record contains significant information establishing that Peoples Gas cannot demonstrate that the costs associated with this program were prudent and reasonable. (Staff IB, pp. 52-54: Staff RB, pp. 43-44)

Peoples and North Shore are seeking recovery of significant expenses related to a Legacy Sewer Lateral Cross Bore Program ("Cross Bore Program"). (Staff Ex. 16.0,

p. 9) Cross bores are gas pipelines through sewer lines. The Cross Bore Program is a remediation project involving locating existing cross bores in the system and, if one exists, rerouting the plastic main or service below, above, or around the existing sewer facilities. (Staff Ex. 6.0, p. 12) The utilities claim the cross bores are a circumstance beyond their control. (NS-PGL Ex. 28.0, p. 7) Staff disagrees.

Staff noted that the Pipeline and Hazardous Materials Safety Administration, "PHMSA," considers pipeline replacement, such as rerouting of plastic main or service as an operation and maintenance function. (Staff Ex. 19.0, p. 4) PHMSA also requires an operator to use procedures that allow for the positive identification of the location of all underground utilities and substructures when directional drilling or boring is to be used for the installation of gas pipelines. When the utility is made aware of the approximate location of an underground facility, the utility must still confirm the depth of the facility to avoid contact during the directional drilling process. In other words, the utility procedures must confirm that spatial separation of utilities is maintained. (*Id.*)

According to a PHMSA Advisory Bulletin issued in 1999, operators must review their procedures to identify hazards associated with directional drilling. (Staff Ex. 19.0, pp. 4-5; Staff Ex. 19.0, Attachment 1) Peoples Gas must also follow industry guidance as laid out in the Gas Piping Technology Committee ("GPTC") Guide for Gas Transmission and Distribution Piping Systems ("GPTC Guidance"). (Staff Ex. 19.0, Attachment 2) Staff noted that 49 CFR Section 192.605 requires operators of natural gas pipelines to develop manuals of procedures for conducting operations and maintenance activities and for emergency response. A utility must have these procedures in place prior to conducting any operation and maintenance functions at the utility. When developing the manuals of procedures, a utility must consider every applicable source of information beneficial to the development of those manuals. As noted above, the Utilities should have been aware of the information generated by PHMSA and GPTC. Therefore, Mr. Burk opines that the fact that Peoples Gas has identified other locations where gas pipelines have been bored through sewers (NS-PGL Ex. 28.0 Rev., pp. 6-7) establishes that the Company's procedures were either inadequate or were not followed. (Staff Ex. 19.0, p. 5)

For the reasons stated above, Staff recommends the following changes to the PO:

Proposed Modification
(PO, p. 146)

Commission Analysis and Conclusion

The Commission believes the Cross Bore Program will be beneficial to the Utilities' ratepayers, however, ~~and~~ the record shows that the Utilities' have not taken appropriate measures when installing their pipes underground to prevent cross bores. The Commission finds that what Peoples Gas' employees may or may not have learned about cross-boring since the date it initially discovered its errors is irrelevant and does not show that the Utilities management acted prudently in developing the Companies' rules and regulations related to cross bores occurring, or that those rules and regulations were adequate for the respective territories, especially the City of Chicago with its complicated system of pipes (Staff Ex. 19.0, pp. 4-5); nor, does it prove that the costs expended under the program are prudent and reasonable. The Commission agrees with ~~the Utilities~~ Staff that given ~~the size and complexity of the sewer system in the City of Chicago and the Utilities' pipe system, it is inevitable that some cross bores would exist~~. the fact that Peoples Gas has identified other locations where gas pipelines have been bored through sewers (NS-PGL Ex. 28.0 Rev., pp. 6-7) establishes that the Company's procedures were either inadequate or were not followed. (Staff Ex. 19.0, p. 5) ~~The Utilities have explained that the program has been planned based on the Utilities' experience from inspecting AMRP projects., however They have been investigating cross bores as part of the AMRP projects and they have already had contractors out in the field as part of inspecting AMRP projects and the Utilities plan to make permanent assignments to the Cross Bore Program when it begins in 2013.~~ Accordingly, the Commission finds that the Utilities have not provided sufficient program planning and find that Peoples Gas requested $5,700,000 and North Shore's $2,600,000 for the program should ~~not~~ be disallowed as proposed by Staff and the AG.

* * *

c. New Chicago Department of Transportation Regulations

6. Productivity Adjustment

7. Administrative & General

a. Adjustments to Integrys Business Support costs

Staff takes exception to the Commission Analysis and Conclusion section regarding the treatment of intercompany charges from Integrys Business Support ("IBS") in the final test year revenue requirement because Staff's adjustment is more appropriate and more comprehensive than the adjustment proposed by AG witness Brosch, which focused only on certain costs within the array of intercompany charges. (ALJPO, pp. 160 - 161) Staff does agree that the AG position adopted by the ALJPO should be adopted if Staff's adjustment is not adopted.

Staff agrees with the ALJPO that the Companies have failed to support the significantly higher level of test year intercompany charges from IBS, even after allowing for the overall inflation adjustment of 2.2 percent that was used by the Companies in their test year forecast. This is demonstrated in Staff witness Pearce's comparison of test year IBS charges to the five-year average calculated in Staff's direct and rebuttal testimony. (ALJPO, pp. 156 - 157) It is the Companies' burden to show the costs at issue are just and reasonable. ("… the burden of proof to establish the justness and reasonableness of the proposed rates or other charges, classifications, contracts, practices, rules or regulations, in whole and in part, shall be upon the utility. ..“ (220 ILCS 5/9-201(c))

AG witness Brosch and Staff witness Pearce concluded the Companies had failed to support the level of intercompany costs reflected in the future test year. The adjustment proposed by Mr. Brosch focused only on those items for which he concluded the Company had not adequately supported the test year level of increase. However, Staff urges the Commission to accept Staff’s adjustment to reduce intercompany charges from IBS to the Companies because the Staff adjustment is more comprehensive than the AG adjustment and is also consistent with the Companies’ test year forecasting methodology. Accordingly, Staff proposes the following replacement language to the Commission’s Analysis and Conclusion regarding this matter.

<u>Proposed Modification</u>
(PO, pp. 160-161)

Commission Analysis and Conclusion

The Commission agrees with the AG and Staff that the Utilities have failed to meet their burden of explaining and justifying the basis for their projected test year O&M expenses for intercompany charges from IBS to Peoples Gas and North Shore. Based on a review of the record, the Commission finds that ~~the AG’s~~ <u>Staff’s </u>proposed adjustment~~s are~~ <u>is</u> supported by the evidence, <u>is</u> reasonable, and should be adopted. AG witness Brosch proposed specific adjustments to several categories of IBS billings to Peoples Gas and North Shore where the projected expenses varied significantly from historical levels. Mr. Brosch reasoned that these adjustments were necessary because the increased expenses had not been adequately explained by the Utilities. However<u>, his adjustment addresses specific costs and lacks the comprehensive approach utilized by Staff. The adjustment proposed by Mr. Brosch focuses only on those items for which he concluded the Company had not adequately supported the test year level of increase. Therefore,</u> ~~T~~the Commission believes ~~the AG’s~~ <u>Staff’s</u> proposed adjustment~~s~~ result<u>s</u> in a more <u>comprehensive and </u>reasonable forecasted expense level that properly reflects the <u>overall</u> intercompany charges

~~explained and supported by the Utilities.~~ most likely to occur during the period these rates are in effect, according to the methodology utilized by the Utilities in deriving the test year forecast.

* * *

b. Advertising Expenses

Staff disagrees with the PO's conclusion to reject Staff's adjustment that removes advertising expenses that are of a promotional, goodwill or institutional in nature. The PO states that the Utilities have established that the nature of event sponsorships is charitable and recoverable under Section 9-227. (PO, p. 164) In making this decision the PO has put misguided reliance on the Utilities' assertion that event sponsorships have a duality of nature as being both advertising expenses and charitable contributions. The PO erroneously concluded that the Utilities incorrectly recorded these sponsorships as advertising expenses rather than charitable contributions. The Utilities have consistently and correctly portrayed the nature of event sponsorships as advertising expenses in the current and prior rate cases. (NS-PGL IB, pp. 109-110) In rebuttal testimony the Utilities continued to portray sponsorships as advertising expenses via the provision of energy education materials to event attendees and agreed with Staff that certain sponsorships could be considered promotional, goodwill, or institutional in nature. (PO, p. 162)

Staff therefore recommends the language of the PO on page 164 be amended as follows:

Proposed Modification
(PO, p. 164)

Commission Analysis and Conclusion

Staff seeks to disallow the expenses of the Utilities' sponsorships that are promotional, goodwill, or institutional in nature. ~~to: (1) in the case of North Shore, Arden Shore Child and Family Services, the City of North Shore Chicago, the College of Lake County, the Preservation Foundation, the Waukegan Park District, the Waukegan Public Library, and Window to the World Communication and (2) in the case of Peoples Gas, American Legion, the Chicago Humanities Festival, the Chicago Public Library, Chicago Sinfonietta, the Friends of the Parks, the Redmoon Theatre, and Window to the World Foundation.~~ The Commission finds that the Utilities have attempted to re-classify advertising sponsorship expenses as charitable contributions. ~~established that the nature of these sponsorships is charitable and recoverable under Section 9-227.~~ The Commission ~~does not take the fact that the Utilities recorded these expenses incorrectly lightly and~~ ~~believes~~ orders the Utilities ~~must~~ to be more careful in distinguishing sponsorship and institutional expenditures that are allowable for charitable purposes and those that are allowable advertising expenses. The Commission notes that the charitable contributions rulemaking in Docket No. 12-0457 should provide guidance as well. ~~However, the Commission believes the nature of the expense is more important and declines to adopts Staff's position that these expenses are promotional can not be considered as charitable contributions because the Utilities initially recorded them as advertising expenses. Moreover, the Commission notes that the recipients of these sponsorships are either charitable organizations or organizations providing public welfare or educational services in the Utilities' service territory.~~ Accordingly, the Commission ~~declines to~~ adopts Staff's adjustment.

* * *

c. Charitable Contributions

Staff disagrees with the PO's conclusion to reject Staff's adjustment to disallow charitable contributions made to Illinois universities outside of Peoples Gas' service territory. The PO states that the Commission agrees with the Utilities' reasoning regarding the benefits provided by Illinois universities and rejects Staff's adjustment. (PO, pp. 166-167) The Utilities reasoning is based solely on the premise that "Illinois universities have in the past and currently provide educated utility workers to serve customers and an educated citizenry within the service territory…" (NS-PGL Ex. 26.0,

p. 9) This one statement should not be construed as sufficient evidence demonstrating that the subject contributions provide benefits to ratepayers. The record does not indicate the number of utility workers serving customers within the service territory who were educated by Illinois universities outside of the Utilities' service territory. The record also does not indicate the specific benefits that Illinois universities outside the Utilities' service territory have provided to ratepayers. It is the Companies' burden to show the costs at issue are just and reasonable. ("… the burden of proof to establish the justness and reasonableness of the proposed rates or other charges, classifications, contracts, practices, rules or regulations, in whole and in part, shall be upon the utility. ..“ (220 ILCS 5/9-201(c)) This information and other pertinent information is necessary to evaluate if any tangible benefits are provided to ratepayers, but such information is not in the record for this proceeding.

Staff therefore recommends the language of the PO on pages 166-167 be amended as follows:

Proposed Modification
(PO, pp. 166-167)

Commission Analysis and Conclusion

Section 9-227 of the Act governs which expenses for charitable contributions are recoverable from ratepayers. This section allows the Commission to consider as an operating expense "donations made by a public utility for the public welfare or for charitable scientific, religious or educational purposes, provided that such donations are reasonable in amount." The Commission has recently initiated a rulemaking, Docket No. 12-0457, to develop rules on this issue. However, this rulemaking has not been completed, thus the Commission must resolve this issue based on the current law as it stands today.

All of the charitable contributions that Staff seeks to disallow in this proceeding are to organizations outside Peoples Gas' service territory. The

> Commission notes that a utility is not precluded from recovering expenses for charitable contributions simply because the organization receiving the donation is outside of the utility's service territory. However, the utility must show that the donation will provide a benefit to customers in its service territory in order to recover these expenses.
>
> The Utilities argue that their donations were made for educational purposes. Additionally, Utilities witness Moy stated that "Illinois universities outside Peoples Gas' service territory have in the past and currently provide educated utility workers to serve customers and an educated citizenry within the service territory ..." The Commission disagrees with the Utilities' reasoning regarding the donations made to Illinois universities and finds that expenses related to these charitable contributions are disallowed as operating expenses. The Commission does not believe the Utilities have shown that the charitable contributions to universities within and outside of Illinois will benefit customers in the Utilities' service territory. Accordingly, the Commission adopts Staff's proposed adjustment to disallow the expenses related to donations made to universities outside Illinois and ~~but declines to~~ adopts Staff's proposed adjustment to disallow the expenses related to donations made to universities within Illinois.

* * *

d. Institutional Events

Staff disagrees with the PO's conclusion to reject Staff's adjustment that decreases miscellaneous expenses associated with support for annual fund raising events that are of a promotional, goodwill or institutional nature. The PO states that the Utilities provided sufficient evidence that the contributions support local charities' fundraising events and are recoverable under Section 9-225 and Section 9-227. (PO, p. 169) Similar to the PO's conclusion regarding Staff's adjustment for sponsorships that represent goodwill advertising, the PO has again put misguided reliance on the Utilities assertion that support for annual fund raising events has a duality in nature as both advertising expenses and charitable contributions. The Utilities have consistently portrayed the nature of support for annual fund raising events as miscellaneous expenses in the current and prior rate cases. (NS-PGL Ex. 42.0 Rev., p. 10) In rebuttal testimony, the Utilities continued to portray support for annual fund raising events as miscellaneous expenses and agreed that certain support for institutional events could be considered promotional, goodwill, or institutional in nature. (PO, p. 168)

Staff therefore recommends the language of the PO on page 169 be amended as follows:

Proposed Modification
(PO, p. 169)

Commission Analysis and Conclusion

The Commission finds that the expenditures ~~contributions~~ made by the Utilities as an element of sponsorship of institutional events are not recoverable under the Act as operating expenses. ~~The Utilities have provided sufficient evidence to show that these contributions were made to support fundraising events for local charities and communities in the Utilities' service territory and not primarily to promote the Utilities or foster goodwill towards the Utilities. In addition, multiple contributions to an entity are not prohibited by the Act as long as the combined amount of the contributions is not unreasonable. There is no evidence that this is the case.~~ The Commission finds that the Utilities have attempted to re-classify advertising sponsorship expenses as charitable contributions. The Commission ~~believes~~ orders the Utilities ~~must~~ to be more careful in distinguishing sponsorship and institutional expenditures that are allowable for charitable purposes and those that are allowable advertising expenses. The Commission notes that the charitable contributions rulemaking in Docket No. 12-0457 should provide guidance as well. The Commission concludes that these costs do promote the Utilities or foster goodwill towards the Utilities and are ~~not~~ barred by Section 9-225 of the Act. ~~and are recoverable under Section 9-225 and 9-227~~. Therefore, the Commission adopts ~~rejects~~ Staff's adjustment~~s~~.

* * *

8. Depreciation

a. Bonus Depreciation

b. Derivative Adjustments from Contested Adjustments

9. Rate Case Expenses

D. Taxes Other Than Income Taxes and Invested Capital Taxes (Payroll) (Uncontested Except for Invested Capital Tax and Derivative Adjustments from Contested Adjustments)

1. Invested Capital Tax Computation and Derivative Adjustments

E. Income Taxes (Including Interest Synchronization) (Derivative Adjustments from Contested Adjustments)

1. Appropriate Methodology to Reflect Change in State Income Tax Rate (see also Section IV.C.6.a.)

F. Gross Revenue Conversion Factor

1. Methodology

2. Late Payment Charge Ratio

G. Net Operating Loss (Derivative Adjustment based on NOL Tax Asset)

VI. RATE OF RETURN

A. Overview

B. Capital Structure

C. Cost of Short-Term Debt

D. Cost of Long-Term Debt

E. Cost of Common Equity

The overarching defect in the ALJs' PO with respect to the authorized ROE is that, on its face, it appears to rely extraordinarily heavily on the Companies' draft PO. A draft proposed order from any party to a case will inevitably reflect that party's biases. Unfortunately, due to its reliance on the Companies' draft PO, much of the language in the ALJ's PO reflects the Companies' biases. Most of Staff's ROE exceptions stem from that fact. Staff submits four exceptions to the ALJs' PO with respect to the cost of common equity: (1) the critical omission of a ruling on the Companies' inclusion of a leverage adjustment in its DCF and CAPM results; (2) the rejection of Staff's adjustment for Rider UEA; (3) several recommended language modifications to better reflect the Commission's impartiality; and (4) several minor recommended language modifications for a more complete, accurate, and clear Order.

1. The Companies' Leverage Adjustment

The ALJs' PO fails to address the Companies' leverage adjustment. As the PO itself notes in its summary of the Companies' positions, the results of the Companies' DCF and CAPM analyses reflect the application of a leverage adjustment. (PO, pp. 195-196 and 199-200) Further, Staff's IB identified the Companies' leverage adjustment as <u>one of only two</u> factors (along with their use of a risk premium model) that account for almost the entire difference between the Companies' and Staff's cost of common equity recommendations. (Staff RB, p. 59) Indeed, without the leverage adjustment, the Companies' DCF result would fall by 64 basis points (from 10.03% to 9.39%) and their CAPM result would fall by 49 basis points (from 8.98% to 8.49%), reducing the Companies' overall ROE estimate by 57 basis points (from 9.51% to 8.94%). Thus, this is a significant ROE issue in a proceeding with relatively few real ROE issues. Even the Companies' draft PO identifies their leverage adjustment as a disputed issue in this proceeding. (NS-PGL Draft PO, p. 94) Nevertheless, the

Companies' draft PO does not address this issue in its conclusions. Likewise, as a direct result of it reliance on the Companies' draft PO, the ALJs' PO also identifies the leverage adjustment as a primary dispute, but neglects to address this critical issue. (PO, p. 196) For a complete Final Order, the Commission <u>must</u> correct this omission.

As Staff explained in its IB, the Companies' leverage adjustment should be rejected, as it has been in nearly every other Commission Order, since it would effectively require rate payers to pay a return on funds not invested in assets serving rate payers. (Staff IB, pp. 88-90) Likewise, CUB-City takes issue with the Companies' leverage adjustment, stating:

> The PUA explicitly denies the Commission authority to allow a utility to earn on more than "only the value of such investment which is both prudently incurred and used and useful in providing service to public utility customers." 220 ILCS 5/9-211. The proposed leverage adjustment would effectively include the stock appreciation enjoyed by market participants in the Companies' rate bases -- even though none of that value is devoted to providing the Companies' utility service. As the Companies concede, "the value of the rate base does not respond to changes in the market value of a utility's securities." Moul, NS-PGL Ex. 39.0, 8:166. Thus, <u>the leverage adjustment Mr. Moul proposes would be unlawful under Illinois law</u>.
>
> The remainder of the Companies' arguments are of no consequence. The Commission cannot artificially increase PGL's rate base. Nor can the Commission use leverage adjustment slight-of-hand to accomplish the same mathematical result by inflating the allowed return above that required by the market.

(emphasis added, CUB-City IB, p. 56)

In their RB, the Companies provided a mathematical example in an attempt to challenge arguments in Staff's IB. (NS-PGL RB, pp. 128-129) Unfortunately for the Companies, that example actually proves Staff's and CUB-City's point – it simply assigns dollar values to precisely what Staff and CUB-City are saying. In that example, the utility has a book value of $100, but the cumulative value of its shares on the secondary market is $110. The Companies argue that the utility's rates must be increased via a leverage adjustment to the authorized ROE so that investors on the secondary market will earn their required rate of return on the full $110 market value.[4] However, since the only investment that is serving utility customers is the authorized book value rate base, there is only $100 serving those rate payers. The utility's rate payers cannot be required to pay higher rates in order to provide a return on the additional $10 that is not serving them. Moreover, by adjusting the ROE to account for market value investment above and beyond the book value, the Companies' proposal would effectively nullify the Commission's authority to remove any non-utility assets from rate base.

The Companies' RB also notes that, by incorporating the Companies' ROE recommendation into the authorized ROE, the Commission included the Companies' leverage adjustment in the ROE authorized in their last rate case. (NS-PGL RB, p. 129) However, that decision is the lone exception to every other Commission decision on the issue. (Staff IB, pp. 89-90) Indeed, even in that case the Commission did not explicitly adopt the Companies' leverage adjustment, but rather, accepted the Companies' ROE recommendation wholesale. Obviously, that approach does not signify Commission approval of any single element of the Companies' ROE recommendation, since, in that same case, the Commission also incorporated the Companies' Risk Premium analysis into the authorized ROE through the wholesale acceptance of the Companies' ROE recommendation despite having explicitly rejected the Risk Premium model two pages

[4] That is, the Companies are insisting that it is the rate payers' obligation to provide secondary market investors with their full required return ($11), even if those investors overpaid for that stock and even if that stock also represents ownership interest in non-utility operations from which they derive additional earnings.

earlier. (Order, Docket Nos. 11-0280/0281 (Cons.), January 10, 2012, pp. 139 and 141) Thus, the inclusion of the Companies' leverage adjustment in the Companies' last authorized ROE was clearly an anomaly that has <u>never</u> been explicitly adopted by the Commission.

As Staff noted, the Companies' leverage adjustment and others like it have been previously rejected numerous times by the Commission. Echoing the arguments above, the Commission, in rejecting the same leverage adjustment in the Companies' 2007 rate case, provided an excellent summary of the issue, which bears repeating:

> In the Commission's judgment, the book value capital structure reflects the amount of capital a utility actually utilizes to finance the acquisition of assets, including those assets used to provide utility service. In establishing the overall or weighted average cost of capital, the proportion of common equity, based on the book value capital structure, is multiplied by market-required return on common equity. The Commission has used this approach in establishing utility rates for at least twenty-five years. E.g., Ameren Order, Docket Nos. 06-0070/06-0071/06-0072 (consol.) at 141 ("[t]he Commission observes that it has repeatedly rejected arguments in favor of using market-to-book ratios as the basis for establishing cost of common equity"). Market value is not utilized in this calculation because it typically includes appreciated value (as reflected in its stock price) above the Utilities' actual capital investments.
>
> The Utilities assert, however, that theirs is a "financial leverage adjustment," not a "market-to-book adjustment." NS-PGL BOE at 30-31. This elevates form and nomenclature over substance. The Utilities perform their adjustment by first determining the cost of equity for a utility (represented by the average of the utility sample) with a 100% equity capital structure, using the market value of the equity (the result is 8.35%). From that, they then calculate the ROE for a utility (again represented by the average of the utility sample) based on the equity reflected in a book value capital structure (a 9.53% result). NS-PGL Ex. PRM 1.13, p. 13-14. The Utilities recognize that this process is equivalent to applying an unadjusted equity return to the market value of the utility's shares, resulting in an adjustment identical to the one we rejected in the Ameren Order. City-CUB Cross-Ex. 5. Again, our practice is to approve a return on a utility's actual investments at book value, not on the appreciated value of its common stock, however calculated and denominated.

> Further, the Utilities have failed to establish why a mismatch between the financial risk reflected in the book value and market value capital structures is problematic. If the Utilities were correct that regulatory commissions, including this one, have been understating the market-required return on equity for twenty-five years, then the market values of common equity for utilities would not have remained well above the book values during that time. A practice of routinely understating the market-required return on common equity would have surely driven down the market values of common equity to near book value, but that has not happened. Accordingly, the Commission does not agree that an adjustment to the market required return on common equity is necessary to reflect the difference in financial risk between book value and market value capital structures. Therefore, we reject the Utilities' financial leverage adjustment to their DCF results and their proposal to impose a similar leveraging adjustment to the betas used in their CAPM analysis.

(Order, Docket Nos. 07-0241/0242 (Cons.), February 5, 2008, pp. 85-86) For the foregoing reasons, the Companies' leverage adjustment should be rejected once again in this proceeding.

Accordingly, Staff recommends the following new language for a new section entitled "Leverage Adjustment" to be inserted at VI.E.7.e under the "Commission Analysis and Conclusions" portion of Section VI, subpart E of the PO ("Adjustments for Riders UEA and VBA" would become VI.E.7.f. and "Conclusions" would become VI.E.7.g).

Proposed Modification
(PO, p. 207)

<u>e. Leverage Adjustment</u>

<u>One of the primary drivers of the difference between the Companies' and Staff's cost of common equity recommendations is Mr. Moul's application of a leverage adjustment in his DCF and CAPM analyses. Mr. Moul applies a leverage adjustment to his DCF and CAPM results because, he claims, a mismatch occurs when an unadjusted market-based cost of equity is applied to a utility's book value capital structure. However, by Mr. Moul's reasoning, if an investor pays more for a utility stock than is warranted given his required return and the expected earnings, the Commission would then be required to increase</u>

the authorized return in order to ensure that the imprudent investor still earns his investor-required return. Clearly, it is not reasonable to require rate payers to pay higher rates in order to neutralize the effects of poor investment decisions.

Similarly, Mr. Moul's adjustment would force rate payers to pay the investor-required return for the full market value of a company, even if that market value includes the value of non-utility assets. Clearly, it is unreasonable to force rate payers to pay a return on assets from which they receive no benefit.

Accordingly, the Commission has properly rejected the use of leverage adjustments in several prior proceedings, including Mr. Moul's proposal for the exact same leverage adjustment, based on the same arguments, in the Companies' 2007 and 2009 rate cases. The Order from the 2007 rate case quite clearly sets forth the reasons such a leverage adjustment should be rejected:

> In the Commission's judgment, the book value capital structure reflects the amount of capital a utility actually utilizes to finance the acquisition of assets, including those assets used to provide utility service. In establishing the overall or weighted average cost of capital, the proportion of common equity, based on the book value capital structure, is multiplied by market-required return on common equity. The Commission has used this approach in establishing utility rates for at least twenty-five years. E.g., Ameren Order, Docket Nos. 06-0070/06-0071/06-0072 (consol.) at 141 ("[t]he Commission observes that it has repeatedly rejected arguments in favor of using market-to-book ratios as the basis for establishing cost of common equity"). Market value is not utilized in this calculation because it typically includes appreciated value (as reflected in its stock price) above the Utilities' actual capital investments.
>
> The Utilities assert, however, that theirs is a "financial leverage adjustment," not a "market-to-book adjustment." NS-PGL BOE at 30-31. This elevates form and nomenclature over substance. The Utilities perform their adjustment by first determining the cost of equity for a utility (represented by the average of the utility sample) with a 100% equity capital structure, using the market value of the equity (the result is 8.35%). From that, they then calculate the ROE for a utility (again represented by the average of the utility sample) based on the equity reflected in a book value capital structure (a 9.53% result). NS-PGL Ex. PRM 1.13, p. 13-14. The Utilities recognize that this process is equivalent to applying an unadjusted equity return to the market value of the utility's shares, resulting in an adjustment identical to the one we rejected in the Ameren Order.

City-CUB Cross-Ex. 5. Again, our practice is to approve a return on a utility's actual investments at book value, not on the appreciated value of its common stock, however calculated and denominated.

Further, the Utilities have failed to establish why a mismatch between the financial risk reflected in the book value and market value capital structures is problematic. If the Utilities were correct that regulatory commissions, including this one, have been understating the market-required return on equity for twenty-five years, then the market values of common equity for utilities would not have remained well above the book values during that time. A practice of routinely understating the market-required return on common equity would have surely driven down the market values of common equity to near book value, but that has not happened. Accordingly, the Commission does not agree that an adjustment to the market required return on common equity is necessary to reflect the difference in financial risk between book value and market value capital structures. Therefore, we reject the Utilities' financial leverage adjustment to their DCF results and their proposal to impose a similar leveraging adjustment to the betas used in their CAPM analysis.

(Order, Docket Nos. 07-0241/07-0242 (Cons.), February 5, 2008, pp. 95-96) For those same reasons, the Companies' leverage adjustment is once again rejected in this proceeding.

* * *

2. Staff's Adjustment for Rider UEA

The ALJ's PO rejected Staff's proposed ROE adjustment to reflect the risk-reducing effect of the Companies' Rider UEA. The PO pointed to two arguments in justifying that decision: (1) Rider UEA has been in effect for the Utilities and hence there is no change in risk that has occurred since the last case that would warrant an adjustment here; and (2) 8 of the 13 companies in the Delivery Group used had similar bad debt trackers.

The first argument the ALJs cite is a repetition of an argument made by the Companies in their last rate case, which was summarily rejected by the Commission. In rejecting that argument, the Commission stated:

> The Companies' argument that the adjustment is unnecessary because the Commission made the same adjustment in the Companies' last case is illogical. The adjustment is not intended to accommodate a one time change in risk of the Companies, but rather to reflect the fact that the Companies have, and will continue to have, in place a risk reducing rider. Thus a 10 basis point downward adjustment is appropriate in this proceeding for the same reasons the Commission found it appropriate in the Companies' last rate case.

(Order, Docket Nos. 11-0280-0281 (Cons.), January 12, 2012, p. 140) For that same reason, the Commission should dismiss this argument in this proceeding.

Likewise, Staff believes the second argument the ALJ's cite provides insufficient basis on which to reject the adjustment for Rider UEA. As Staff explained, the Companies did not provide any data regarding the extent to which the sample companies are affected by bad debt trackers. Even utilities that have some form of a bad debt tracker may not be fully covered by their bad debt recovery mechanisms. For example, while Atmos Energy ("Atmos") is among the sample companies that benefit from some form of a bad debt tracker, Atmos also has gas supply operations in five states that do not offer bad debt recovery mechanisms. In addition, Atmos has other business segments including pipeline and energy market services that would not benefit from bad debt trackers. Thus, we do not know the magnitude of the influence bad debt trackers have on the risk of the sample companies that have them, but clearly it is less for some of them than it is for the Companies, whose revenues are entirely subject to Rider UEA. Moreover, approximately 40% of the Delivery Group companies have no bad debt trackers at all. Therefore, it is clear that the Delivery Group companies do <u>not</u>

enjoy the risk-reducing effects of bad debt recovery mechanisms to the extent that the Companies do and, thus, a downward adjustment to the Companies' authorized rate of return on common equity is still necessary. (Staff IB, p. 85)

Accordingly, Staff recommends the following modifications to the "Adjustments for Riders UEA and VBA" portion of Section VI. E. 7 of the PO (the designation of this section has been changed from "e" to "f" to accommodate the insertion of the section on the leverage adjustment previously discussed).

Proposed Modification
(PO, pp. 207-208)

f~~e~~. Adjustments for Riders UEA and VBA

> With respect to Rider UEA, the Commission finds that Staff's proposed adjustment is ~~not~~ warranted to be included in the ROE. ~~Rider UEA has been in effect for the Utilities and hence there is no change in risk that has occurred since the last case that would warrant an adjustment here. Moreover, trackers such as Rider UEA have become quite common in the natural gas utility business.~~ This adjustment had been made previously because most of the comparable Delivery Group companies had no bad debt tracker. However, 8 of the 13 companies in the Delivery Group used in this proceeding had similar bad debt trackers. Nevertheless, the Utilities failed to establish whether those 8 companies are fully covered by their bad debt trackers as the Utilities are; at least one has significant operations that were not subject to any bad debt tracker. Moreover, 5 of the 13 companies have no such trackers at all. Therefore, there is not sufficient basis to ~~make~~ reject an adjustment to the Utilities' cost of equity attributed to Rider UEA that we have made in both of the Companies' last two rate cases. Therefore, we ~~reject~~ accept Staff's proposed adjustment.

* * *

Staff offers the following alternative language, should the Commission conclude that a compromise solution is in order.

Proposed Modification
(PO, pp. 207-208)

f~~e~~. Adjustments for Riders UEA and VBA

~~With respect to Rider UEA, t~~The Commission finds that Staff's proposal~~ed~~ to adjust~~ment is not warranted to be included in~~ the ROE to reflect Rider UEA is warranted. ~~Rider UEA has been in effect for the Utilities and hence there is no change in risk that has occurred since the last case that would warrant an adjustment here. Moreover, trackers such as Rider UEA have become quite common in the natural gas utility business.~~ This adjustment had been made previously because most of the comparable Delivery Group companies had no bad debt tracker. However, trackers such as Rider UEA have become more common in the natural gas utility business. In fact, 8 of the 13 companies in the Delivery Group used had similar bad debt trackers. Nonetheless, the Utilities failed to establish whether those 8 companies are fully covered by their bad debt trackers as the Utilities are; at least one of those 8 companies has significant operations that were not subject to any bad debt tracker. Moreover, 5 of the 13 companies have no such trackers at all. Therefore, ~~there is no basis~~ we find it appropriate to make an adjustment to the Utilities' cost of equity attributed to Rider UEA equal to one-half of Staff's proposed adjustment, or 5 basis points. ~~Therefore, we reject Staff's proposed adjustment.~~

* * *

3. Modifications to Remove Prejudicial Language from Sections of the PO that Present Uncontested Facts

The use of the Company's draft PO as the starting point for the ALJs' PO has resulted in language that is slanted and argumentative in sections of the PO that should be purely neutral. Staff recognizes that draft Proposed Orders can be useful to ALJs in preparing the ultimate Proposed Order. However, a party's draft Proposed Order will invariably summarize its analyses and arguments as fully and favorably as possible, but not be as concerned about the completeness and accuracy of the positions held by other parties. Similarly, the "Commission Conclusions" section in a draft Proposed Order will invariably find in favor of the party drafting that Proposed Order. Therefore, it is critical that pains are taken to ensure that any bias written into the draft Proposed Order is excluded from the ALJs' ultimate Proposed Order. Accordingly, Staff notes the following changes are needed to make the discussion of uncontested issues in the Commission Order as complete and straightforward as possible.

The words "modest" and "substantially" should be removed from the "Overview" section (PO, pp. 180-181). The language in that section is directly from the Companies' draft PO and, thus, reflects their bias. The purpose of an "Overview" section is to provide factual background of a case, not opinion. Labeling the effects of parties' proposals as "modest" or "substantial" is unnecessary and clearly prejudicial, particularly where, as here, the Companies' proposal to raise its authorized ROE 55 basis points since their last rate case is referred to as "modest" while Staff's proposal to reduce the Companies' authorized ROE by a smaller amount (39 basis point) is branded "significant."

Proposed Modification
(PO, pp. 180-181)

A. Overview

Peoples Gas proposes a rate of return on rate base of 7.07% based on a capital structure comprised of 50.43% common equity at a cost (a rate of return on common equity or "ROE") of 10.00%, 43.61% long-term debt at a cost of 4.47%, and 5.96% short-term debt at a cost of 1.26%. North Shore proposes a rate of return on rate base of 7.12% based on a capital structure comprised of 50.32% common equity at an ROE of 10.00%, 42.33% long-term debt at a cost of 4.64%, and 7.35% short-term debt at a cost of 1.80%. The Utilities' proposed 10.00% ROE represents a ~~modest~~ 55 basis point increase to their current ROE of 9.45%.

The Utilities' capital structures and short-term debt costs are not disputed. The Utilities and Staff are in agreement on the Utilities' long-term debt costs, but the AG proposes slightly lower costs by assuming that the Utilities' 2013 debt issuances will cost the same as the actual cost of Peoples Gas' new debt issuance in late 2012 instead of current or forecasted costs for the 2013 issuances. (CUB-City did not address long-term debt cost in their initial brief.)

Staff proposes ~~substantially~~ lower rates of return on rate base, 6.60% for Peoples Gas and 6.65% for North Shore, by virtue of its proposal to reduce the Utilities' ROE by 39 basis points, from 9.45% to 9.06%. The AG and CUB-City support Staff's proposed ROE.

The legal standards governing a public utility's entitlement to a fair and reasonable return on its investment are well established and familiar. The Commission summarized these standards in one of the Utilities' recent rate cases thus:

> A public utility has a constitutional right to a return that is 'reasonably sufficient to assure confidence in the financial soundness of the utility and adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.' The authorized return on equity 'should be commensurate with returns on investments in other enterprises having corresponding risks. That return, however, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.'
> *Peoples Gas 2009* Order at 89-90 (citations omitted).

* * *

The changes indicated below should be made to the second paragraph in the "Cost of Short-Term Debt (Uncontested)" Section (PO, p. 182). The costs of short-term debt adopted in the PO were originally proposed by Staff, based strictly on current actual interest rates, and later agreed to by the Companies. However, the PO's language suggests support for the Companies' argument that the use of interest rate forecasts is appropriate, which Staff adamantly disputes. That language was taken straight from the Companies' draft PO. The Companies cannot be allowed to adopt another party's result, call it an uncontested issue, and then slip in their disputed rationale for that result.

Proposed Modification
(PO, pp. 182)

C. Cost of Short-Term Debt (Uncontested)

The Utilities and Staff agree on a short-term debt cost of 1.26% for Peoples Gas and 1.80% for North Shore. NS-PGL Exs. 38.1N and 38.1P; Staff Ex. 15.0, Sched. 15.01. No other party addressed short-term debt in their briefs.

~~Because these rates reflect consideration of both recent actual interest rates and recent forecasts of interest rates during the test year, t~~The Commission finds those estimates~~em~~ reasonable and approves their inclusion in the Utilities' 2013 rates.

* * *

4. Modifications for a More Complete, Accurate, and Clear Order

A Final Order should be as complete, accurate, and clear as possible. Toward that end Staff proposes the following revisions, which are presented in legislative format immediately after each.

The changes below should be made to the second paragraph in the "Commission Analysis and Conclusion" portion of Section VI. D "Cost of Long-Term Debt" (PO, pp. 182-185). The revisions to the cost of long-term debt the Companies proposed in their motion did not represent a "Utilities-Staff agreement" and were not limited to a single debt series.

Proposed Modification
(PO, p. 185)

Commission Analysis and Conclusion

The Commission agrees with the Utilities~~-Staff agreement~~ that the long-term debt cost for Peoples Gas should be adjusted to incorporate the lower refinanced cost of its Series KK bonds. The refinancing was completed in April 2013 and therefore should be reflected in Peoples Gas' 2013 rates. The results of this refinancing were presented in a post-hearing motion filed by the Utilities on April 17, 2013. In that motion, the Utilities also proposed to update the initial 4.20% interest rate estimate for their new 2013 bonds to the actual interest rate at issuance of 3.96%. The result of the lower interest rates for this long-term debt is to reduce the overall cost for North Shore's long-term debt from 4.64% to 4.53% and ~~the lower interest rate for the long term debt is~~ to reduce the overall cost for Peoples' long term debt from 4.47% to 4.37%. There was no objection to this additional information being admitted into the record.

* * *

The changes below should be made to Section VI. E "Cost of Common Equity" (PO, pp. 185-208). The proposed changes give a more complete depiction of Staff's analysis and position, consistent with that afforded the Companies.

Proposed Modification
(PO, p. 185)

E. Cost of Common Equity
~~Utilities~~

1. Overview

Utilities' Overall Position

* * *

Proposed Modification
(PO, pp. 187-189)

[Please note: the text in gray shading which is underlined is not new language but rather language from the PO which previously was underlined.]

Staff

Three parties presented estimates of the Companies' costs of common equity: the Companies, the AG, and Staff. The Companies initially estimated North Shore's and Peoples Gas's return on equity ("ROE") to be 10.75%, but subsequently updated their estimate to 10.00%. NS Ex. 3.0 at 47; PGL Ex. 3.0 at 47; NS-PGL Ex. 39.0 at 1-2. AG witness Brosch did not perform an analysis of the Companies' cost of common equity, but rather, proposes to use the same 9.45% cost of common equity authorized in the Companies' last rate setting proceeding. AG Ex. 1.0 at 61; AG Ex. 4.1, Sched. D; AG Ex. 4.2, Sched. D. Staff estimated North Shore's and Peoples Gas's ROE to be 9.06%. Staff Ex. 5.0, Sched. 5.01.

Staff's Analysis

Staff witness Michael McNally estimated Peoples Gas's and North Shore's investor-required rate of return on common equity to be 9.06%. Staff Ex. 5.0, Sched. 5.01. Mr. McNally measured the investor-required rate of return on common equity with discounted cash flow ("DCF") and Capital Asset Pricing Model ("CAPM") analyses. Mr. McNally applied those models to a sample of thirteen natural gas and electric delivery companies ("Delivery Group"). The Delivery Group was the same sample used by Company witness Moul. Staff Ex. 5.0 at 13. To select that sample, Mr. Moul started with the universe of gas utilities categorized in Value Line's "Natural Gas Utility" group, which consists of eleven companies. He then eliminated two companies due to the different operations in which those companies engage. The nine remaining companies are: AGL Resources, Atmos Energy, Laclede Group, New Jersey Resources, Northwest Natural Gas, Piedmont Natural Gas, South Jersey Industries, Southwest Gas, and WGL Holdings. To those nine he added four electric utility holding companies in Value Line's "Electric Utility (East)" industry group whose utility subsidiaries are engaged principally in the delivery of gas and electricity: Consolidated Edison, Northeast Utilities, PEPCO Holdings, and UIL Holdings. Together, those thirteen companies compose the Delivery Group. NS Ex. 3.0 at 4-5; PGL Ex. 3.0 at 4-5. Mr. McNally's DCF analysis produced a 9.32% ROE estimate, while his CAPM analysis produced an ROE estimate of 8.99%. Averaged together, those results produced a cost of common equity of 9.16% for the Delivery Group. Mr. McNally adjusted that result downward by 10 basis points to reflect the risk reduction associated with Rider UEA, which resulted in a final cost of common equity of 9.06% for the Companies.

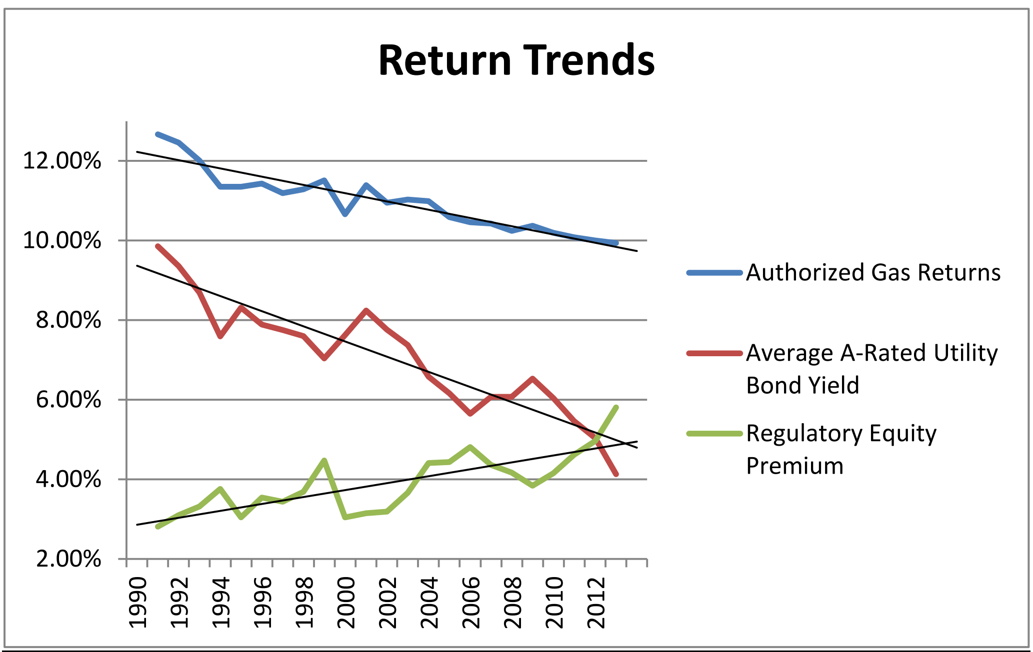
In response to the Companies' arguments, Staff notes that ~~T~~the Companies devote a great deal of their testimony regarding Staff's ROE analysis to the proposition that Staff's results are "woefully inadequate." NS-PGL Ex. 24.0 Rev. at 1-5. However, although Mr. Moul criticizes certain aspects of Mr. McNally's analysis, ~~which Staff addresses below,~~ he never demonstrates how the alleged errors he points to cause Mr. McNally to understate the ROE. In fact, Staff demonstrated that one of Mr. Moul's criticisms of Mr. McNally's analysis – that his use of a constant growth DCF model was chosen to produce a lower result – is factually incorrect, as Mr. McNally's use of a constant growth DCF actually produced a higher result than if a non-constant growth DCF had been used. Staff Ex. 15.0 at 12. Thus, the conclusion that Staff's results are too low cannot be drawn from the specific criticisms Mr. Moul alleges. The reality is, Staff's lower results are not due to any alleged errors by Staff, but are simply the results indicated by investor behavior, given the market environment. Indeed, Mr. Moul's results would have been similar to Staff's if he had not inappropriately adjusted his DCF and CAPM results and used an outdated, empirically unsupported, historical risk premium model. Both the adjustments he applied and his use of a risk premium model are theoretically unsound and, accordingly, have been repeatedly rejected in prior Commission proceedings. When those factors are removed, the average of the results of Mr. Moul's CAPM and DCF analyses for the Delivery Group and those of Mr. McNally's CAPM and DCF analyses differ by a mere 22 basis points, with Mr. Moul's results being lower than Mr. McNally's. Staff Ex. 15.0 at 8.

Mr. Moul argues that Staff's cost of common equity recommendation is "simply not representative of the returns investors can earn on other investments of comparable risk." NS-PGL 24.0 Rev. at 2. This criticism is unsubstantiated and clearly wrong. First, his argument is based on three inapt comparisons: (1) a comparison to previously authorized ROEs; (2) a comparison to his own upwardly adjusted ROE estimates; and (3) a comparison to Value Line forecasts of book value returns. The first approach has been fully discredited by Staff and rejected by the Commission in numerous prior rate setting proceedings. Mr. Moul's comparisons to previously awarded ROEs are meaningless, as not only do they represent authorized returns for *other* companies, in *other* jurisdictions, at *other* times during *other* market environments, but the facts needed to assess the degree of comparability, including such critical aspects as the relative risk of the utilities involved and the market environment in which those decisions were made, are entirely unknown. Without such data, those comparisons are useless. Staff Ex. 15.0 at 8-9. Likewise, the second approach is uninformative because it depends on the proposition that Mr. Moul's upwardly adjusted estimates of the cost of common equity are accurate.[5] The third approach is also fatally flawed because it relies on forecasts of book earnings that are not only speculative, but are not comparable to the investor-required return. It is difficult enough to estimate the *current* investor-required return when actual data is available, but to attempt to project what investors will demand at some point in the *future* is pure speculation. Worse yet, the Value Line projected returns on book equity that Mr. Moul cites are entirely unaffected by changes in the investor-required rate of return and, thus, cannot be used as a substitute benchmark for the investor-required return. In fact, investors cannot invest at (and earn a return on) book value, but must pay market value. Mr. Moul's own use of CAPM and DCF

[5] An estimate cannot be a useful benchmark of the accuracy of a different estimate until the accuracy of that "benchmark" estimate has been established. One could as easily argue that Mr. McNally's estimates of the cost of common equity demonstrate that Mr. Moul's estimates are too high, but Staff does not fall into this illogical dead end. Rather, as will be detailed later, Staff establishes the inaccuracy of Mr. Moul's cost of common equity estimates through an analysis of the tortured models and methodologies from which they were elicited.

analyses to estimate the investor-require return recognizes as much, as those models are based on market value stock prices. Thus, those Value Line book value returns are clearly not returns investors can earn on other investments of comparable risk, rendering them invalid benchmarks for the investor-required return. Staff Ex. 15.0 at 10-11.

Second, as Mr. McNally pointed out, given the context of the current interest rate environment, with interest rates at the lowest they have been in over 20 years and consistently trending lower, Mr. McNally's cost of common equity estimate is what a rational investor would expect. Staff Ex. 15.0 at 9. In response, Mr. Moul notes that the other component of the authorized return on equity, the equity risk premium,[6] has risen during that period, which he suggests means a higher authorized return is warranted. NS-PGL Ex. 39.0 at 3-4. But Mr. Moul's testimony misleadingly divulges only part of the story; the rest of the story, which is revealed in his work paper, demonstrates his claim to be false. That work paper shows that the falling interest rates Mr. McNally cited more than offset the rising risk premium Mr. Moul cited. Below is a graph of the complete picture buried in the Companies' work papers:



(Staff RB, pp. 60-63) As the above graph clearly shows, Mr. Moul's own authorized rate of return data proves the Companies' statement that "the Utilities' cost of equity is increasing because the 'equity premium'...is rising" to be unambiguously false. Moreover, this ~~That is, contrary to Mr. Moul's implication, his own work paper~~ explicitly shows that, along with the interest rates Mr.

[6] The market-required rate of return is composed of two components: the nominal risk-free interest rate and the equity risk premium. (Staff Ex. 5.0, p. 18)

McNally cited, authorized returns have been steadily trending downward for over 20 years and are at the lowest they have been in that time. Staff Cross Ex. 8. Thus, the general market conditions and trends that influence the decisions that investors make in the market validate Staff's position and demonstrate the Companies' position to be untenable.

* * *

The changes below should be made to the "Context" subpart of Section VI. E. 7 "Commission Analysis and Conclusions" (PO, p. 205). The current language is directly from the Companies' draft PO and provides a one-sided perspective. The proposed changes give a more complete and accurate depiction of the current market environment.

Proposed Modification
(PO, p. 205)

7. Commission Analysis and Conclusions

a. The Context

Traditionally, the Commission has established rates of return on common equity for utilities by employing mathematical models designed to quantify the likely cost of attracting capital investment during the time rates are expected to be in effect. In virtually all cases, we have relied on the DCF and CAPM models. The arguments presented in this case do not present a reason to deviate from this position.

While we adhere to the position that the Commission does not base utility returns on those approved for other utilities, in Illinois or elsewhere, we do agree that we ~~have~~ should consider how our decisions will be perceived by the financial markets and what impact those perceptions might have on the Utilities, and thus, ultimately their customers. To this end, the Commission will consider general market conditions and trends because this information influences the decisions that investors make in the market. This information is relevant to our ROE decisions because we estimate what investors demand and that requires consideration of the full array of information that investors consider when they effectively set the real cost of capital for a utility. *See Illinois Bell Tel. Co.,* ICC Docket Nos. 92-0448, 93-0239 (Cons.) (Order Oct. 11, 1994) at 103.

The Commission believes it is important to be apprised of current market conditions because our decisions affect at least in part the capital costs that the market sets for the Utilities, in particular through the credit rating agencies' evaluation of regulation quality and direction. The Commission believes it would be improper to ignore altogether the potential market reactions to our cost of capital decisions.

Based on the record, the Commission recognizes that the average of recent ROEs authorized for natural gas utilities is 9.94%. NS-PGL Init. Br. at 130-131. However, the Commission notes that it is not bound by decisions made in other jurisdictions. Moreover, the Commission cautions that those ROEs are not current and that the record does not reveal the risk level of the companies represented. Thus, we cannot conclude that those authorized ROEs are representative of current returns investors can earn on other investments of comparable risk to Peoples Gas and North Shore. The Commission also notes that although A-rated utility equity risk premiums have recently increased ~~significantly as~~, the corresponding interest rates ~~remain at~~ and authorized returns have been trending downward for over 20 years and are currently at historic lows.[7] NS-PGL Ex. 39 at 3-4; Staff RB at 60-63. These general market data provide relevant comparative information as we assess the parties' various ROE provisions. They do not, however, replace our analysis of the Utilities' specific cost of equity using the traditional tools at our disposal, to which we now turn.

* * *

The changes below should be made to the "DCF Model" subpart of the "Commission Analysis and Conclusions" Section (PO, pp. 205-206). In the first paragraph, the assertion of bias in both parties' selection of a DCF model is stricken. While the Companies accused Staff of bias in selecting its DCF model, Staff never

[7] The Commission notes that the Companies' focus on equity premiums paints a picture that is not only incomplete, but false. Moreover, their argument is highly disingenuous. The Companies' entire point is to draw a conclusion regarding authorized ROE trends. But rather than directly present the authorized ROE data with which Mr. Moul began his analysis, he used that data to derive implied equity premiums to suggest a completely contradictory conclusion. As Staff demonstrated, the actual authorized return data validates Staff's conclusion that falling interest rates suggest a lower ROE and proves the Companies' conclusion false. The Companies' choice to withhold explicit authorized return data and, instead, present data to suggest a directly contradictory conclusion is a tactic the Commission does not view favorably and does not wish to see again.

accused the Companies of bias in selecting their DCF model. Nonetheless, in adopting an average of both the Companies' and Staff's DCF results, the ALJs projected the Companies' claim to both parties, since both parties used the same DCF model. However, the Companies' claim of a downward bias in Staff's approach was directly disproved in the record, as Staff's model actually produced a higher result. Thus, rather than incorrectly extrapolating bias to both parties, the Order should more accurately simply remove the Companies' false claim of bias. (Staff IB, pp. 80-82; Staff RB, pp. 68-70) In the second paragraph, necessary information is added to correct the PO's oversight regarding the Companies' leverage adjustment discussed in Staff's 1st ROE exception above. In the third paragraph, language that is better suited for, and previously stated in, the summary of Staff's analysis is removed. Finally, in the third paragraph, the adopted DCF estimate is revised to reflect the rejection of the Companies' leverage adjustment.

Proposed Modification
(PO, pp. 205-206)

b. The DCF Model

DCF analysis assumes that the market value of common stock equals the present value of the expected stream of future dividend payments. Since a DCF model incorporates time-sensitive valuation factors, it must correctly reflect the timing of the dividend payments that stock prices embody. In reviewing the results from the DCF model as performed by the Utilities and Staff, the Commission finds that ~~both approaches reflects bias in its choice between the constant and non-constant versions of the model. The Commission further finds that~~ both have some validity in estimating a reliable estimate of the Utilities' cost of equity.

Although we acknowledge that analysts might disagree as to different variants and ways in which a model might be constructed, we find both Staff's and the Companies' analyses of the DCF methodology to provide some validity. Consistent with a compromise position, we will consider an average of Staff's and the Utilities' DCF result for the Delivery Group only. Mr. Moul's DCF result for the Delivery Group was 8.98%. However, that estimate is inflated due to its inclusion of a leverage adjustment, which we reject, as explained below. Without that adjustment, Mr. Moul's DCF result for the Delivery Group is 8.49%.

~~Staff's DCF methodology shows that a growth rate that reflects the expectations of investors. The companies in the Delivery Group pay dividends quarterly. Therefore, Mr. McNally applied a quarterly DCF model. Mr. McNally used a constant growth DCF model in which he measured the market-consensus expected growth rates with 3-5 year growth rate forecasts published by Zacks and Reuters. The growth rate estimates were combined with the closing stock prices and dividend data as of November 9, 2012. Based on this growth, stock price, and dividend data,~~ Mr. McNally's DCF estimate of the cost of common equity was 9.32% for the Delivery Group.

The Commission does not endorse every input to or every aspect of the DCF analyses performed by the Utilities or by Staff. Nevertheless, for purposes of this proceeding, the Commission finds that each provides useful input in estimating the market required return on common equity. The Commission used the average of the Utilities and Staff's formulas and determined the ROE of the Delivery Group would be ~~9.15~~8.91% under the DCF methodology.

* * *

The changes below should be made to the "CAPM" subpart of the "Commission Analysis and Conclusions" Section (PO, pp. 206-207). This adds necessary information to correct the PO's oversight regarding the Companies' leverage adjustment discussed in Staff's 1st ROE exception above, cleans up some minor errors for clarity, and moves the last paragraph to the ultimate "Conclusions" subsection (PO, p. 208).

Proposed Modification
(PO, pp. 206-207)

c. The CAPM ~~Model~~

The CAPM requires the estimation of three parameters: beta, the risk-free rate, and the required rate of return on the market.

Utilities' witness, Mr. Moul used historical and forecast yields on 20-year Treasury bonds and selected a mid-point of 4.25% based on current forecasts and recent trends. NS Ex. 3.0 at 40; PGL Ex. 3.0 at 39-40. For the beta measurement of systematic risk, he used the average *Value Line* beta for the Gas Group, adjusted using the Hamada formula to reflect the application of this market-based measurement to the utility's book value capital structure used in ratemaking. NS Ex. 3.0 at 38-39; PGL Ex. 3.0 at 38-39. Mr. Moul developed his market premium of by averaging forecast data from *Value Line* and the S&P 500 Composite and historical data from Ibbotson Associates, all of which are sources routinely used by investors, analysts and academics.

Staff's witness, Mr. McNally for the beta parameter combined adjusted betas from Value Line, Zacks and a regression analysis. The Delivery Group's average Value Line, Zacks and regression beta estimates were 0.67, 0.58, and 0.54, respectively. The Value Line regression employs 259 weekly observations of stock return data regressed against the New York Stock Exchange ("NYSE") Composite Index. Both the regression beta and Zacks betas employ sixty monthly observations; however, while Zacks betas regress stock returns against the S&P 500 Index, the regression beta regresses stock returns against the NYSE Index. Since the Zacks beta estimate and the regression beta estimate are calculated using monthly data rather than weekly data (as Value Line uses), Mr. McNally averaged the Zacks and regression results to avoid over-weighting monthly return betas. He then averaged that result with the Value Line beta, which produced a beta for the Delivery Group of 0.62. Staff Ex. 5.0 at 24-29. For the risk-free rate parameter, Mr. McNally considered the 0.13% yield on four-week U.S. Treasury bills and the 2.77% yield on thirty-year U.S. Treasury bonds. Both estimates were measured as of November 9, 2012. Forecasts of long-term inflation and the real risk-free rate imply that the long-term risk-free rate is between 4.3% and 4.9%. Thus, Mr. McNally concluded that the U.S. Treasury bond yield is currently the superior proxy for the long-term risk-free rate. Staff Ex. 5.0 at 19-24. Finally, for the expected rate of return on the market parameter, Mr. McNally conducted a DCF analysis on the firms composing the S&P 500 Index.

Staff's final number after inputting those three parameters into the CAPM~~,~~ ~~Mr. McNally calculated a cost of common equity estimate of~~ is 8.99% for the Delivery Group. The Utilities had a higher CAPM result with a cost of common equity estimate of 10.03%. However, as noted previously, that estimate results from applying a leverage adjustment to the beta input. Since, as explained below, the Commission rejects Mr. Moul's leverage adjustment, it must be removed, which produces a CAPM estimate of 9.39%.

We find that that both the Utilities' unadjusted CAPM analysi~~e~~s and Staff's CAPM analysi~~e~~s have some merit and should be consider as an appropriate basis to determine ROE. As with the DCF analyses discussed above, ~~T~~the Commission does not endorse every input to or every aspect of the CAPM analyses performed by the Utilities or by Staff. Nevertheless, for purposes of this proceeding, the Commission finds that each provides useful input in estimating the market required return on common equity. In an effort to reach a reasonable result given all of the information in the record, the Commission notes that an average of these two ~~models~~ analyses produces a value of 9.19~~51~~% for the CAPM result.

~~In combining and averaging the DCF model of 9.15% and the CAPM analysis value of 9.51, the Commission estimates that for the Delivery group a reasonable estimate of the market required return on common equity is 9.33%~~

* * *

The "Conclusions" subsection of the "Commission Analysis and Conclusions" Section (page 208) should be modified as indicated below to correct some minor errors for clarity and to reflect the effects of all the abovementioned changes.

Proposed Modification
(PO, p. 208)

~~f~~g. Conclusions

Based on the foregoing discussion, the calculation of ROE will be affected by the following conclusions: (1) the DCF analyse~~i~~s performed by the Utilities and ~~for~~ by Staff for the Delivery Group will be included in this calculation; (2) the CAPM analyse~~i~~s of both the Utilities and ~~for~~ Staff for the Delivery Group will be included in this calculation; (3) the Utilities' Risk Premium analysis for the Delivery Group is rejected; (4) the leverage adjustment the Utilities applied to their DCF and CAPM results is rejected; (5) Staff's adjustment for Rider UEA is ~~not~~ accepted; and (6~~5~~) the Utilities' adjustment for the legal challenge to Rider VBA is not accepted. Based on its review of the record and consistent with the conclusions above, the Commission finds that an average of ~~the~~ Staff's DCF and CAPM analyse~~i~~s along with the Utilities' unadjusted DCF and ~~the~~ unadjusted CAPM models forms an appropriate basis to determine ROE~~, which results in an ROE of 9.33% for each Utility~~. In combining and averaging the unadjusted DCF model result of 8.91% and the unadjusted CAPM analysis value of 9.19%, the Commission estimates that a reasonable estimate of the market required return on common equity for the Delivery Group is 9.05%. Subtracting 10 basis points to reflect the risk reduction due to Rider UEA produces a final cost of common equity for the Utilities of 8.95%.

* * *

Finally, Section VI. F “Weighted Average Cost of Capital” (PO pp. 208-209) should also be modified as shown below to reflect the effects of all the above mentioned changes.

Proposed Modification
(PO, pp. 208-209)

F. Weighted Average Cost of Capital

North Shore

Based on the evidence in the record and the applicable legal principles, the Commission approves as just and reasonable an overall rate of return (weighted average cost of capital) for North Shore of —6.55~~74~~%, calculated as follows:

North Shore Cost of Capital Summary			
Cost of Capital	**Percent of Total**	**Percent Cost**	**Weighted Cost**
Long Term Debt	42.33%	4.53%	1.92%
Common Equity	50.32%	8.95~~9.33~~%	4.50~~69~~%
Short Term Debt	7.35%	1.80%	0.13
Total Capital			6.55~~74~~%

Peoples Gas

Based on the evidence in the record and the applicable legal principles, the Commission approves as just and reasonable an overall rate of return (weighted average cost of capital) for Peoples Gas of -6.50~~69~~%, calculated as follows:

Peoples Gas Cost of Capital Summary			
Cost of Capital	**Percent of Total**	**Percent Cost**	**Weighted Cost**
Long Term Debt	43.61%	4.37%	1.91%
Common Equity	50.43%	8.95~~9.33~~%	4.51~~71~~%
Short Term Debt	5.96%	1.26%	0.08
Total Capital			6.50~~70~~%

VII. WEATHER NORMALIZATION (Uncontested)

VIII. COST OF SERVICE

A. Overview

B. Embedded Cost of Service Study – Uncontested

IX. Rate Design

A. Overview

B. General Rate Design

1. Allocation of Rate Increase

2. Uniform Numbering of Service Classifications

3. Bifurcation of S.C. No. 1 class

4. Terms and Conditions of Service

C. Service Classification Rate Design

1. Uncontested Issues

a. Service Classification No. 2, General Service (Straight Fixed Variable Rate Design Addressed in IX.C.2)

b. Large Volume Demand Service

c. Service Classification No. 8, Compressed Natural Gas Service

d. Contract Service for Electric Generation

e. Contract Service to Prevent Bypass

f. Rider SSC, Storage Service Charge

2. Contested Issues – North Shore and Peoples Gas

a. Service Classification No. 1, Small Residential Non-Heating

b. Service Classification No. 1, Small Residential Heating

c. Service Classification Nos. 1 and 2, Alternative Conditional Straight Fixed Variable Rate Design

D. Fixed Cost Recovery and Rider VBA

X. Transportation Issues

A. Uncontested Issues

1. Purchase of Receivables (Withdrawn)

2. Commission Authority to Order Investigation on Provider of Last Resort

B. Contested Issues

1. Cost Allocation Between Sales Customers and Small Volume Transportation Customers

The ALJPO's Commission Analysis and Conclusions for Sections X.B.1., and X.B.3., are not compatible. In the former, the ALJPO states that "The Commission finds that it was reasonable for the Utilities to make no changes to the administrative charges that the Commission so recently reviewed and approved." (ALJPO, p. 270) In the latter, the ALJPO also concludes "The Companies are directed to modify their cost recovery methodology for the Choices For You program accordingly." (*Id*., p. 277) Since the administrative charges recover Choices For You ("CFY") program costs, these two conclusions conflict. The Commission Analysis and Conclusion which needs to be modified is the one concerning the Recovery of Small Volume Transportation Program CFY Administrative Costs as discussed below.

2. Recovery of Supply-related Costs from Small Volume Transportation Program (Choices for You[SM] or "CFY") Customers

3. Recovery of Small Volume Transportation Program (Choices for You[SM] or "CFY") Administrative Costs

As discussed above, the ALJPO's Commission Analysis and Conclusions for Sections X.B.1. and X.B.3. are not compatible. In the former, the ALJPO states that

"The Commission finds that it was reasonable for the Utilities to make no changes to the administrative charges that the Commission so recently reviewed and approved." (ALJPO, p. 270) In the latter, the ALJPO also concludes "The Companies are directed to modify their cost recovery methodology for the Choices For You program accordingly." (*Id*., p. 277) Since the administrative charges recover Choices For You ("CFY") program costs, these two conclusions conflict. The Commission has to choose between seemingly contradictory ratemaking principles. On the one hand, the ALJPO has opined that customers generally benefit from the ability to buy gas from competitive suppliers in a well-designed market. The ALJPO agrees with a stronger version of this principle, asserting

> All eligible customers benefit from a well-designed competitive program, whether they choose to participate in the competitive market or remain customers of the Companies. Because all eligible retail customers benefit from a competitive program, the costs for running that program should be recovered from all of those eligible customers.

(ALJPO, p. 277). While the Commission in a recent Ameren Illinois order stated that:

> The Commission notes that it has long had a policy favoring competition in energy markets, and the Commission believes that customers will generally benefit from being given the opportunity to participate in a well-designed competitive market.

(Final Order, Docket No. 11-0282, January 10, 2012, p. 193)

This latter statement is a much more general statement, and by itself, does not support the conclusion in the ALJPO.

On the other hand, there is a well-understood principle that costs should be recovered from the cost causer. The Commission has also approved cost recovery methods that follow that rule, as indeed it has previously for this issue. (Final Order, Docket Nos. 09-0166/0167 (Cons.), January 21, 2010, p. 260) As noted in Staff's IB and seconded elsewhere in the ALJPO, ratemaking can be complicated. Cost causation can be difficult to assess, as is the case with the costs that the PO concluded could not be disaggregated. (ALJPO, pp. 270 and 274) However, in the case of the CFY administrative costs, causation is direct and uncontested. (Staff IB, p. 115-116)

IGS Energy argued in its IB that declines in participating transportation customers and suppliers evidenced poor program design. According to IGS Energy, the program's popularity could be enhanced by the reforms it advances. (IGS Energy IB, pp. 12-13) However, IGS Energy has overstated the declines in customer numbers and exaggerated the possible effect that allocating CFY administrative costs to all customers could have. (Staff RB, pp. 92-93)

The CFY administrative costs are recovered under Rider AGG. In particular, Staff's RB showed that the Companies charge AGSs $0.40 per-customer per-month under Rider AGG. The charge equaled $0.83 before January 28, 2010 and was $1.02 from January 28, 2010 until January 21, 2012. Over this same period, transportation customer numbers declined. (*Id*., pp. 93-94) Thus, the connection between the per-customer charge and interest in transportation service does not appear to be very strong. This undermines IGS Energy's argument that a reallocation of these costs is likely to spur interest in the Companies' small volume transportation programs. (IGS Energy IB, pp. 12-13)

As pointed out by Staff, the data needed to clarify cost causation of the customer charges allocated to all customers is not available. (Staff IB, p. 116) However, in the case of the CFY program's administrative costs, those costs are tracked and are clearly caused by the transportation customers. (*Id.*, pp. 115-116) Consistent with the above, Staff recommends the following changes to the ALJPO.

Proposed Modification
(PO, p. 277)

Commission Analysis and Conclusions

The Commission ~~reiterates its view~~ believes that ~~that all~~ customers generally benefit from ~~being given the opportunity to participate in~~ a well-designed competitive market. ~~The benefits of customer choice extend beyond just those customers who actually switch suppliers. All eligible customers benefit from a well-designed competitive program, whether they choose to participate in the competitive market or remain customers of the Companies. Because all eligible retail customers benefit from a competitive program,~~ But the costs ~~for~~ to run~~ning~~ that program should be recovered from ~~all of those eligible~~ the customers that cause the costs. ~~Given the cost spreading approach taken in a variety of other analogous contexts -- such as energy efficiency and peak time rebates programs -- this would seem to be a non-controversial position at this point.~~ The Companies ~~are directed to modify their~~ shall maintain their current cost recovery methodology for the Choices For You program ~~accordingly~~.

* * *

4. Provider of Last Resort Investigation

XI. TECHNICAL CORRECTIONS

The revenue requirement schedules attached as Appendices A and B to the PO contain errors. It is Staff's position that those schedules should not be used in the final Commission Order because as the Companies indicated in their Reply Brief certain Staff adjustments contained errors in the schedules attached to Staff's Initial Brief. Those adjustment amounts contain the same errors the Companies noted in their Reply Brief, specifically:

FN 47 At a minimum, the NOL operating income adjustments to the tax asset reflected in the Staff Initial Brief Appendices A and B, page 1, col. j. should only be for federal current income taxes (line 20) with an offset to deferred taxes and ITCs Net (line 21)

FN 48 The Utilities note that in reflecting the NOLs in their schedules attached to its Initial Brief, Staff did not reflected it proposed [sic] adjustments in the NOL calculations.

FN 49 In order to properly reflect its position, Staff Initial Brief Appendix B, page 2, cols. g and h and page 3, col. l should reflect accurate amounts for deferred taxes and ITCs Net (line 21) and state/federal current income taxes (lines 19 and 20). Staff Initial Brief Appendix A, page 2, cols. d and page 3, col. l should reflect accurate amounts for deferred taxes and ITCs Net (line 21) and state/federal current income taxes (lines 19 and 20). The deferred income taxes were computed (see ICC Staff Exs. 24.06N, pages 2-3, 24.08P, pages 2-3, 25.01N, page 1 and 25.01P, page 1) and included in rate base but corresponding effect on the income statement was not included.

FN 50 ICC Staff Ex. 24.08P Revised, page 2, line 3, col. n should be adjusted to the 2012 NOL tax asset ending balance.

(NS-PGL Reply Brief, p. 120, footnotes 47 – 50)

Staff would note that the Companies did not provide correcting numbers for the various adjustments noted above to be accurately reflected in the final revenue requirement schedules; therefore, correct adjustments are not in the evidentiary record to accurately reflect the 2012 NOL. (*See also* Staff's Exception addressing the NOL, IV., B., 5.)

XII. CONCLUSION

Staff respectfully requests that the Illinois Commerce Commission approve Staff's recommendations in this consolidated docket.

Respectfully submitted,

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